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August 31, 2009

Susan M. Hudson, Clerk
Vermont Public Service Board
112 State Street
Montpelier, VT 05620-2701

Re: Department of Public Service proposal to establish a self-managed energy efficiency program

Dear Mrs. Hudson:

Pursuant to 30 V.S.A §209(h), the Department of Public Service is required to recommend to the Public Service Board a "three-year pilot project for a class of self-managed energy efficiency programs for transmission and industrial electric ratepayers only." The statute also specifically directs the Board to review the Department's recommendation, and enact programs to take effect by December 31st, 2009.

The Department of Public Service is pleased to propose a design for the pilot self-managed energy efficiency program (SMEEP). The attached design outlines the elements of the SMEEP, including eligibility criteria, implementation protocols and other fundamental aspects of the program.

This program design is submitted by the Department of Public Service in consensus with International Business Machines Corporation (IBM). Given the Legislature's directives regarding eligibility, it appears that IBM is the only entity that currently qualifies for the proposed program. However, the SMEEP is designed so that other entities who meet the eligibility criteria in the future may also participate.

Please let me know if you have any questions.

Sincerely,

Walter (TJ) Poor
Energy Programs Manager
Department of Public Service
802-828-0544



SELF MANAGED ENERGY EFFICIENCY PROGRAM

General:

The Self Managed Energy Efficiency Program (SMEEP) is a three year pilot program that recognizes certain transmission or industrial class customers who are committed to, and possess considerable expertise regarding energy efficiency. The Self Managed Energy Efficiency Program provides these customers with a choice to remain eligible to participate in the Statewide Core Programs or pursue both electric and fuel energy efficiency measures on their own.

Eligibility:

Transmission or Industrial class customers that meet the following criteria are eligible to be participants in this program:

1. The customer must be a member of the transmission or industrial electric rate class and their Energy Efficiency Charge (EEC) during 2008 must have exceeded \$1.5 million.
2. The customer shall demonstrate to the Board that it has a comprehensive energy management program with annual objectives. Achievement of certification under ISO standard 14001 shall be eligible to satisfy the requirements of having a comprehensive program.
3. The customer shall commit to a three-year minimum energy investment of three (3) million dollars over a three (3) year program cycle.

Participants in the SMEEP will not be eligible to concurrently participate in services or initiatives offered by any Vermont Energy Efficiency Utility (EEU). Participants would be eligible to reapply to the Customer Credit Program if the pilot program is not continued or participation is terminated for any reason.

Program Design:

Eligible customers that elect to participate in the SMEEP must commit to spending \$3 million on energy efficiency projects over three years (36 months). The customer will receive credit against the \$3 million commitment per the following "Qualified Expenses":

For purposes of the Program, "Qualified Expenses" are defined as follows:

For "market-driven" projects:

One hundred percent (100%) of the incremental costs associated with identifying, investigating, analyzing, designing, implementing and/or installing societal cost effective electric and/or fuel efficiency projects at facilities owned, operated or controlled by the participant. These costs may include the participant's internal design and engineering labor, outside design, engineering and installation labor and equipment costs.

Incremental costs are defined as the difference between the actual cost of the equipment, installation labor, engineering, design, and commissioning and the estimated cost of the equipment, installation labor, engineering, design, and commissioning that would meet the current design and construction standard practice (the "baseline cost").

For "retrofit" projects:

One hundred percent (100%) of the total costs associated with identifying, investigating, analyzing, designing, implementing and/or installing societal cost effective electric and/or fuel efficiency retrofit projects at facilities owned, operated or controlled by the participant. These costs may include the participant's internal design and engineering labor, outside design, engineering and installation labor, and equipment costs.

For "special energy efficiency studies:

One hundred percent (100%) of the total costs associated with identifying, investigating, and analyzing special studies and/or energy audits of any electric and/or fuel efficiency potential projects at facilities owned, operated or controlled by the participant. These costs may include the participant's internal design and engineering labor, outside design or engineering services.

Fees:

One hundred percent (100%) of the fee paid to participate in the SMEEP, including any fees paid to the PSB and/or the DPS for administrative costs and project verification costs, shall count toward the \$3 million dollar commitment.

The determination of whether the project represents a "market driven", "retrofit" project, or "special study", shall be made by the participant.

Projects must meet the basic financial criteria of saving more energy during the life of the investment than the cost of the investment. Both electric and fuel savings shall count toward the required savings criteria.

Program Implementation:

Application:

No later than December 31 of 2009, any qualifying customer may apply to the Public Service Board (PSB), in writing, to participate in the SMEEP for the next three calendar years. In its written notice, the customer must demonstrate compliance with the eligibility criteria. Failure to make such a notification will preclude the customer from being accepted into the SMEEP for the initial three-year pilot program. The PSB shall notify the customer if they have been accepted into the SMEEP within 30 days of their application. The SMEEP effective date for an accepted participant shall be January 1, 2010.

Once accepted into the SMEEP the participant will no longer be required to pay the monthly EEC on the monthly utility bill for a period of three years. The PSB will notify the participant's electric utility that the charge will no longer apply to the accepted participant. Participant bills rendered on or after February 1, 2010 through January 31, 2013 (36 months) will be exempt from the EEC.

Project Execution:

If a participant chooses, it may proceed with an energy efficiency project prior to being accepted into the SMEEP program, at its own risk.

Pre-approval is not required for any projects under SMEEP however, all completed projects may be subject to verification review by the DPS.

Should the participant ask for pre-review of a unique project scope, that participant may submit a description of an energy efficiency project to the DPS (or its designated representative), for pre-review. This submittal shall include a statement of whether the project is market-driven, retrofit or special study; a list of proposed Qualified Expenses associated with the project, along with supporting documentation; an estimate of energy and

non-energy savings associated with the project, and the project's expected lifetime; and a description of the "baseline" if it is a market-driven project. The DPS (or its representative) will review the participant's submission, screen it for societal cost effectiveness, and notify the participant in writing within 45 days whether: the project meets the cost-effectiveness screening criteria; the DPS needs additional data to screen or review the project; the DPS agrees with all the participant's assumptions and estimates; the DPS disagrees with any or all participant assumptions or estimates; and/or the DPS needs additional time to review the submission.

Reporting:

By March 31 of 2011, 2012, and 2013 the participant in the SMEEP shall provide to the Board and the DPS an accounting of the energy investments and energy savings in a format approved by the Board. The PSB and/or the DPS may conduct reasonable audits to ensure accuracy of the data provided. Audits will be based on methods mutually agreed to between the DPS and the participant.

Confidential Information:

A participant may request confidentiality of data it shares with or reports to the DPS, the Board, or their representatives, if such data would qualify for exemption from disclosure under 1 VSA Section 317. If confidentiality is requested, the data shall be disclosed only in accordance with a protective agreement approved by the Board and signed by the recipient of the data, unless a court orders otherwise. Any data not subject to such a confidentiality request will be a public record.

Cost-based fee:

The PSB will determine a cost-based fee that shall be charged to the participant to cover administrative costs including savings verification, incurred by the PSB and/or DPS. The cost-based fee will be a single fee paid during the SMEEP application process. If an applicant is not accepted into the self-managed energy efficiency program then the application fee will be returned to the applicant. The participant will only be charged for administrative costs to the DPS/PSB and the project verification costs related to its projects during the three-year period. The DPS shall propose a "not to exceed" amount for all administrative costs, including DPS, PSB, and other reasonable costs by October 15th, 2009.

Documentation and Verification:

Savings verification shall be consistent with savings verification procedures established for entities appointed under 30 V.S.A. §209(d)(2). Documentation of all energy savings and costs shall be conducted by methods mutually agreed upon by the participant and the DPS. Metering shall be conducted where determined appropriate.

Disagreements:

In the event that any disagreements arise between the DPS and the participant regarding eligibility of a project or related fees, both parties will work in good faith to resolve the disagreements. The participant will provide to the DPS all necessary data to review its assumptions and estimates including, but not limited to, work papers, drawings, contractor estimates, operating data and equipment specifications. The DPS will then make a determination of the eligibility of the project. In the event the participant disputes any DPS determination, the participant may make a complaint to the Public Service Board, who shall seek to resolve the complaint through negotiation. If no such resolution occurs within thirty (30) days, the Board shall make a determination.

Forward Capacity Markets:

Per 30 VSA 209 (h)(4)(L) a participant in the SMEEP class may submit projects to the independent system operator of New England, including through recognized aggregators, for payments under that operator's forward capacity market program, and shall invest such payments in electric and/or fuel efficiency in addition to the three million dollar commitment.

Other sources of efficiency funds:

A participant in the SMEEP class may receive funding from an energy program administered by a government or other entity which is not the participant but may not count such funds received as part of the annual commitment to its self-managed energy efficiency program.

Termination of eligibility:

Upon a determination by the PSB that a participant in the SMEEP class has not met the commitment required by the program the PSB, shall terminate the participant's eligibility for the SMEEP and the participant will be subject to the conditions per, 30 V.S.A. §209(h)(4)(N) and 30 V.S.A §209(h)(4)(I). The PSB may also terminate a participant's eligibility for cause after opportunity for hearing. In such case, the participant will be subject to the conditions per 30 V.S.A. §209(h)(4)(N) and 30 V.S.A §209(h)(4)(I).

Pilot:

Prior to the commencement of the Year 2012 legislative session, the PSB will hold a proceeding to determine its recommendation on the future of this pilot program. Review of the pilot program shall include but not be limited to an assessment of the documented and/or projected energy savings, yield, average investment payback, and the project costs, and the timing and sufficiency of documentation provided by participants.

Transition:

Any unspent Customer Credit Net Pay Option funds will be available to the participant to meet its \$3,000,000 minimum energy efficiency investment.